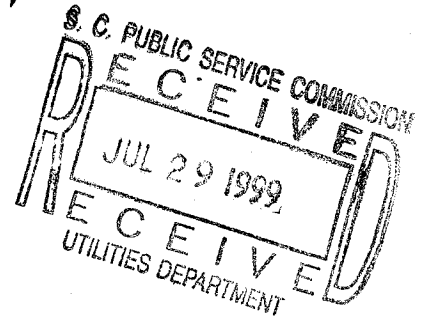


ORIGINAL

***Application for Establishment of Water Rates
Upstate Water Resources, Inc.***

Docket No. 1999-164-W



***HEARING DATE
August 12, 1999***

***Testimony of
Sharon G. Scott
Accounting Department***

The Public Service Commission of South Carolina

POSTED
MAR 7-30-99**S. C. PUBLIC SERVICE COMMISSION**
RECEIVED
JUL 29 1999
RECEIVED**TESTIMONY OF SHARON G. SCOTT****FOR****THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA****DOCKET NO. 1999-164-W****IN RE: UPSTATE WATER RESOURCES, INC.**

Q. MS. SCOTT, WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION?

A. My name is Sharon G. Scott. My business address is 101 Executive Center Drive, Columbia, South Carolina. I am an Accountant/Fiscal Analyst for the Public Service Commission of South Carolina.

Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE?

A. I received a B.S. Degree in Business Administration, with a major in Accounting from the University of South Carolina in 1983. I am currently seeking a MBA degree from Webster University. I was employed by this Commission in July 1983, and have participated in cases involving gas, electric, telephone, and water and wastewater utilities. I have 16 years of auditing experience.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING UPSTATE WATER RESOURCES, INC?

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
Koger Executive Center, 101 Executive Center Drive, Columbia, SC 29210
Post Office Box 11649, Columbia, SC 29211

RETURN DATE: OK MR
SERVICE: OK MR

1 A. The purpose of my testimony is to set forth, in summary form, the Staff's findings
2 and recommendations resulting from our review of the Company's application in this
3 docket. These findings and recommendations are set forth below and in attached
4 exhibits.

5 **Q. IN CONNECTION WITH YOUR TESTIMONY, DID YOU PREPARE OR**
6 **CAUSE TO BE PREPARED CERTAIN EXHIBITS?**

7 A. Yes, I prepared Accounting Exhibit A, Operating Experience and Operating Margin,
8 and Accounting Exhibit A-1, Explanation of Accounting and Pro Forma
9 Adjustments. Both exhibits are attached to my testimony, and use a test year ended
10 December 31, 1998.

11 **Q. MS. SCOTT, IF THIS IS AN ESTABLISHMENT CASE, HOW DID YOU**
12 **DETERMINE KNOWN AND MEASURABLE EXPENSES AND PLANT IN**
13 **SERVICE?**

14 A. The Company has been operating since 1994, therefore Staff was able to verify a
15 majority of the expenses to the Company's books and records. Several of these
16 expenses were allocated to reflect the portion associated with Mr. Schmid's other
17 businesses. The Company estimated the amounts for chemicals and the licensed
18 operator. Staff also examined receipts to support the Company's expenses. The
19 Company provided the original costs of plant in service for Bay Ridge, but provided
20 an estimate for Keowee Bay and Cedar Creek for a total amount of \$800,000 for the
21 original cost of plant in service. Larry Schmid purchased the plant from Ingram
22 Enterprises, Inc. in 1994 for \$125,000 and formed Upstate Water Resources, Inc.

1 **Q. DID STAFF MAKE A PLANT ACQUISITION ADJUSTMENT?**

2 A. Yes, Staff made a Plant Acquisition Adjustment of \$675,000 to reflect the difference
3 between the estimated original cost of \$800,000 and the purchase price of \$125,000.
4 The net effect of the adjustment only allows depreciation expense on the purchase
5 price of \$125,000. Staff recommends the Commission accept the Plant Acquisition
6 Adjustment.

7 **Q. WOULD YOU EXPLAIN THE FORMAT OF EXHIBIT A?**

8 A. Column (1) shows the revenues and expenses per the Company's application. Staff
9 uses a test year ended December 31, 1998. Shown in this column is Net Income
10 (Loss) for Return of (\$41,518) and per book Operating Revenue of \$41,519 which
11 produces an Operating Margin of (100.00%).

12 Column (2) shows the Staff's accounting and pro forma adjustments. Details of each
13 adjustment are shown in Accounting Exhibit A-1.

14 Column (3) shows the As Adjusted figures, computed as a result of the accounting
15 and pro forma adjustments. Staff computed Net Income (Loss) for Return of
16 (\$19,351) and the Operating Revenues of \$33,840, producing an Operating Margin
17 of (57.18%).

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 A. Yes, it does.
20
21
22

Accounting Exhibit A

Upstate Water Resources, Inc.
Operating Experience and Operating Margin
Test Year Ended December 31, 1998

<u>Description</u>	<u>Per Company's Application</u> \$	<u>Accounting & Pro Forma Adjustments</u> \$	<u>As Adjusted</u> \$
Operating Revenues	41,519	(7,679) (1)	33,840
Tap Fee Revenues	0	0	0
<u>Total Operating Revenues</u>	<u>41,519</u>	<u>(7,679)</u>	<u>33,840</u>
Bank Note	9,660	(9,660) (2)	0
Truck Payment	5,439	(5,439) (3)	0
Truck Insurance	1,500	(654) (4)	846
Phone-Answering Ser., Pager, Mobile	3,854	0	3,854
Workers Compensation Insurance	751	0	751
Insurance - Pumps & Buildings	2,674	(1,144) (5)	1,530
Electricity Expense	5,347	(1,305) (6)	4,042
Chemicals	1,230	0	1,230
DHEC Fees	2,674	(1,295) (7)	1,379
Bacterial Samples	2,674	(481) (8)	2,193
Fuel	2,567	0	2,567
Vehicle Maintenance	749	0	749
Office Expenses	1,390	(769) (9)	621
Licensed Operator	18,001	0	18,001
Accountant	1,400	(490) (10)	910
Bond	600	(600) (11)	0
Property Taxes	535	0	535
Life Insurance	1,224	(367) (12)	857
Health Insurance	2,612	(784) (13)	1,828
Depreciation	7,383	3,915 (14)	11,298
Profit 11%	10,773	(10,773) (15)	0
Income Taxes	0	0	0
<u>Total Operating Expenses</u>	<u>83,037</u>	<u>(29,846)</u>	<u>53,191</u>
<u>Net Operating Income</u>	<u>(41,518)</u>	<u>22,167</u>	<u>(19,351)</u>
Customer Growth	0	0	0
<u>Net Income for Return</u>	<u>(41,518)</u>	<u>22,167</u>	<u>(19,351)</u>
<u>Operating Margin</u>	<u>(100.00%)</u>		<u>(57.18%)</u>

Note: This exhibit reflects the revenues and expenses for all three subdivisions, Bay Ridge, Keowee Bay, and Cedar Creek.

Upstate Water Resources, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 1998

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Operating	Bank	Truck	Truck	Insurance	Electricity	DHEC	Bacterial	Office	
	Revenues	Note	Payment	Insurance	Buildings		Fees	Samples	Expenses	Account.
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Description

To adjust revenue to reflect contract revenue and rate revenue. (U)

Per Staff (7,679)
Per Company 0

To remove bank payment for land and equipment from operating expenses. This amount should be capitalized and depreciated. (A)

Per Staff (9,660)
Per Company 0

To remove truck payment from operating expenses. This amount should be capitalized and depreciated. (A)

Per Staff (5,439)
Per Company 0

Upstate Water Resources, Inc.										
Explanation of Accounting and Pro Forma Adjustments										
Test Year Ended December 31, 1998										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Description	Operating Revenues	Bank Note	Truck Payment	Truck Insurance	Buildings Insurance	Electricity	DHEC Fees	Bacterial Samples	Office Expenses	Account.
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
To allocate a portion of truck expenses to the other businesses. (A)										
Per Staff										
Per Company					(654)					
					0					
To adjust insurance on pumps and buildings to the per book amount and remove reimbursed expense from the Homeowner's Association for Cedar Creek's insurance. (A)										
Per Staff										
Per Company					(1,144)					
					0					
To adjust electricity expense to the per book amount and remove reimbursed expense from the Homeowner's Association for Cedar Creek's insurance. (A)										
Per Staff										
Per Company						(1,305)				
						0				
To adjust DHEC Fees to the per book amount. (A)										
Per Staff										
Per Company							(1,295)			
							0			

Upstate Water Resources, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 1998

Description	(1) Operating Revenues	(2) Bank Note	(3) Truck Payment	(4) Truck Insurance	(5) Buildings Insurance	(6) Electricity	(7) DHEC Fees	(8) Bacterial Samples	(9) Office Expenses	(10) Account.
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
To adjust the bacteria samples expenses to the per book amount. (A)										
Per Staff								(481)		
Per Company								0		
To adjust office expenses to the per book amount. Staff could not measure the increase in expense due to additional billing for Bay Creek. (A)										
Per Staff								(769)		
Per Company								0		
To allocate a portion of Accountant's fees to the other businesses. (A)										
Per Staff									(490)	
Per Company									0	
Total Accounting and Pro Forma Adjustments - Per Staff	(7,679)	(9,660)	(5,439)	(654)	(1,144)	(1,305)	(1,295)	(481)	(769)	(490)

Upstate Water Resources, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 1998

(11)	(12)	(13)	(14)	(15)
Bond	Life	Health	Ins.	Deprec.
\$	\$	\$	\$	Profit 11%
				\$

To remove expense for bond required by the Commission. The Company submitted a financial statement as the security bond. (A)

Per Staff (600)
Per Company 0

To prorate a portion of life insurance expense to the other businesses.(A)

Per Staff (367)
Per Company 0

To prorate a portion of health insurance to the other businesses.(A)

Per Staff (784)
Per Company 0

To adjust depreciation expense for a Plant Acquisition Adjustment (estimated original cost versus the Company's purchase price) and to reflect depreciation on the Company's truck. (A) & (U)

Per Staff 3,915
Per Company 0

Upstate Water Resources, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 1998

Description	(11)	(12)	(13)	(14)	(15)
	Bond	Life	Health	Deprec.	Profit 11%
	\$	\$	\$	\$	\$
To remove profit as an operating expense. (A)					
Per Staff					(10,773)
Per Company					0
Total Accounting and Pro Forma Adjustments - Per Staff	(600)	(367)	(784)	3,915	(10,773)

(A) - Accounting Department

(U) - Utilities Department